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ECONOMICS MONTHLY

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INDIA -- THE GREAT SUBCONTINENT AND A NEW U.S. MARKET

Three factors must come together to make a potential wood products customer country. First, the country must be experiencing rapid economic development, stimulating construction and creating a reserve of foreign exchange to be used for purchases. Second, demand for housing must be strong. A corollary to this would be a cultural openness to wood framed housing. Finally, the country's domestic resources must be insufficient to meet rising wood products demand in the country. Japan has fit this criteria well during the past several years. China also fit this model and was the subject of a special report in the September issue of the Economics Monthly. Another potential customer country attracting new interest is India.

Earlier this year, the National Forest Products Association, in conjunction with the Foreign Agricultural Service of USDA, sponsored a trade mission to India. Its purpose was to explore India's potential as a marketplace for U.S. wood products. The team of industry representatives learned that India's wood needs are large and growing, at the same time that its indigenous resource is declining.

India's population of 750 million is the second largest in the world, and is growing at a rate of 15 million persons per year. Per capita GNP is about $240, with half the population living well below the poverty line. However, the large percentage of poor people conceals a small but growing middle class. By one estimate, the middle class, concentrated in the urban areas, accounts for over 40 percent of India's GNP.

Trade with the U.S.

India's trade has been growing at a substantial rate. Currently,

Table I:
The U.S. imports mostly wood moldings and carvings from India.

TOP WOOD PRODUCTS TRADED WITH INDIA
Value, Millions of Dollars

	9 Mos. '86
U.S. IMPORTS	
Molding	$1,950
Hardwood Veneer	$1,194
Hardwood Plywood	$1,004
Hardwood Lumber	$437
TOTAL WOOD PRODUCTS IMPORTS	$2,915
U.S. EXPORTS	
Softwood Lumber	$308
Softwood Veneer	$134
Hardwood Lumber	$44
TOTAL WOOD PRODUCTS EXPORTS	$848

Source: Dept. of Commerce

MONTHLY STATISTICAL HIGHLIGHTS

The average effective rate of all mortgage loans closed in the U.S. dropped to 9.98 percent in October, the lowest since late 1978. The ARM share of new mortgages has fallen from 50 percent a year ago to 21 percent.

The Bureau of Labor Statistics reports that productivity by sawmills and planing mills increased by 2.8 percent in 1985. This compares with 4.4 percent for all manufacturing.

Hardwood lumber production in September was up 10.7 percent from August; new orders were up 16.7 percent.

During the first nine months of the year, softwood log exports were down 10.4 percent.

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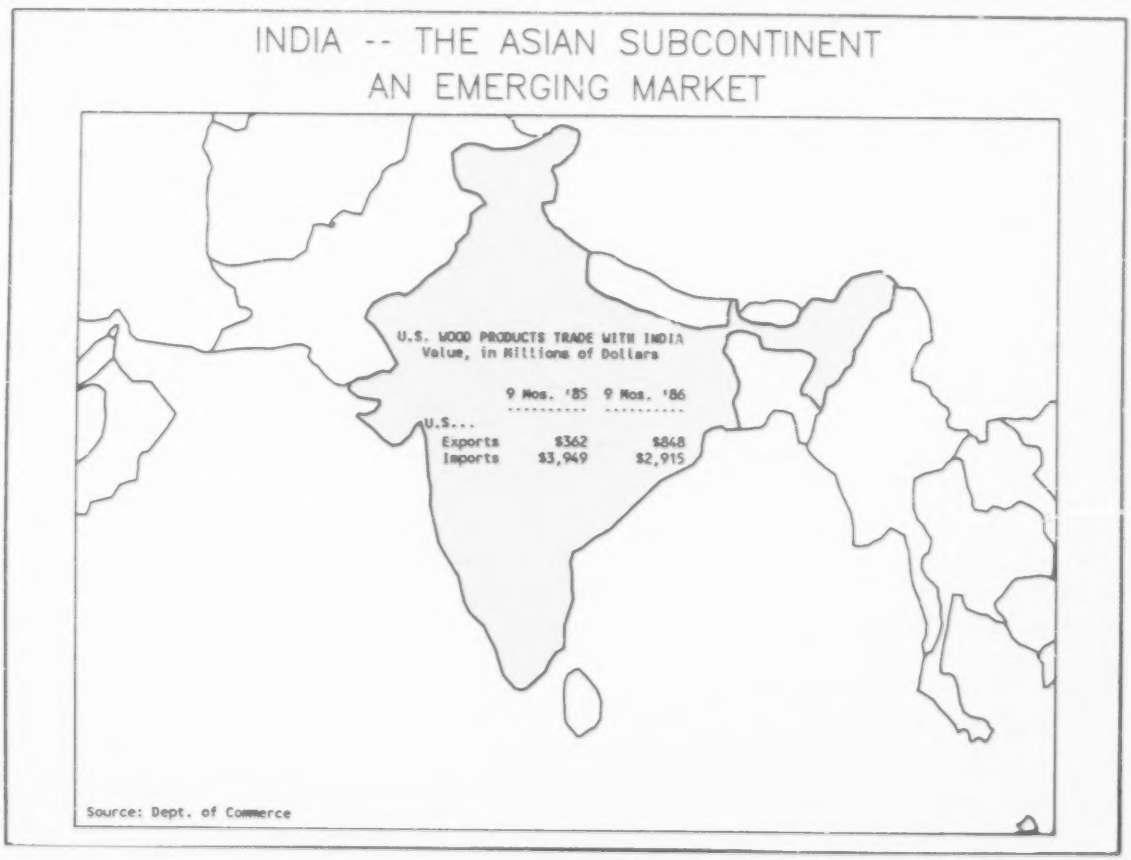
its trade is significantly out of balance; imports exceeded exports by $5.3 billion during the past fiscal year. Because of International Monetary Fund loans and other foreign financial inputs, India's current account balance was positive and its foreign exchange reserves stood at $6.0 billion at the end of March, 1986. Nonetheless, the trade balance and foreign exchange availability are major variables that can impact imports by leading to actions to restrict them.

Overall, the U.S. exported $1.5 billion of products to India last year, or about 10 percent of all Indian imports. U.S. wood products accounted for only about $400,000 of that amount. In contrast, India's exports to the U.S. come to about $2.5 billion, or 26 percent of its total exports. (Figure 1.) The U.S. imported about $5 million of wood products from India, mainly wood carvings, plywood and some veneer (Table I).

Until recently imports of wood into the country have been nearly non-existent, but they are starting to flow because of a sharp cut in tariffs (from 100 percent to 10 percent on logs, lumber and veneer) and the elimination of import permit requirements. Housing construction is high, about 2 million units per year, but does not fulfill the tremendous need. Although wood is not a predominant building material used in housing, it is important for single family units in some areas. The primary usage at the present is for doors, window frames, flooring, panelling, partitions and built-ins.

Figure 1: Rising exports to and falling imports from India signal the market opportunity.



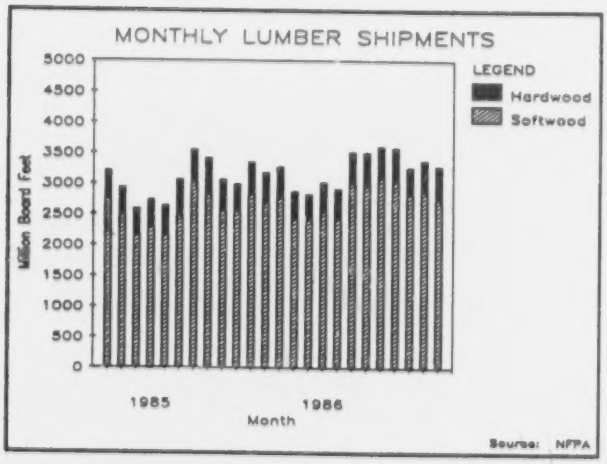
ECONOMICS MONTHLY

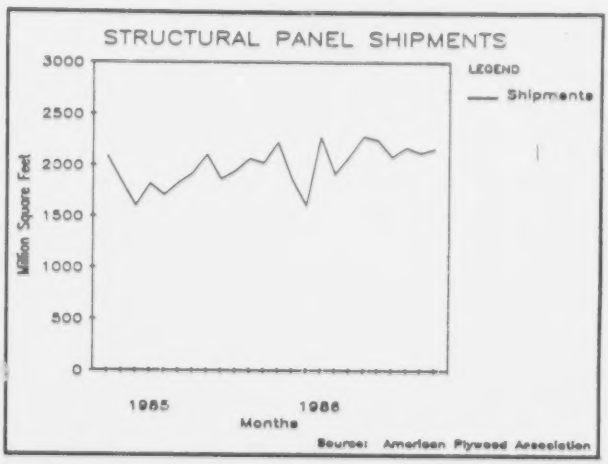
MONTHLY STATISTICAL SUPPLEMENT

Issued: November 1986

ESTIMATED INDUSTRY TOTALS BY PRODUCING REGION

	SEPTEMBER 1986			SEPTEMBER 30, 1986	
	Production	Shipments	Orders Received	Unfilled Orders	Gross Stocks
			(Million Board Feet)		
SOFTWOOD LUMBER					
Southern Pine Region	676	676	703	657	1,897
Douglas Fir Region	873	793	810	597	937
Western Pine Region	1,007	986	993	517	1,323
California Redwood Region	164	153	149	87	380
Other Softwoods	139	133	136	252	303
TOTAL SOFTWOODS	2,859	2,741	2,791	2,110	4,840
% Change - August 1986	-4.6%	-4.9%	-2.7%	2.4%	2.5%
% Change - September 1985	4.2%	0.6%	1.0%	5.0%	2.8%
HARDWOOD LUMBER					
Southern Hardwood Region	221	225	233	272	866
Appalachian Hardwood Reg.	94	97	104	*	*
Other Hardwoods	223	228	239	214	884
TOTAL HARDWOODS	538	550	576	486	1,750
% Change - August 1986	10.7%	9.6%	16.6%	5.7%	-0.7%
% Change - September 1985	13.3%	19.6%	29.1%	19.7%	2.4%
TOTAL LUMBER	3,397	3,291	3,367	2,596	6,590
% Change - August 1986	-2.5%	-2.8%	0.1%	3.0%	1.6%
% Change - September 1985	5.5%	3.4%	4.9%	7.5%	2.7%
* Included in Other Hardwoods					
			(Thousand Feet)		
FLOORING					
Oak Flooring (Bd. Ft.)	NA	12,734	NA	8,266	5,262
Maple Flooring (Sq. Ft.)	824	1,032	952	3,901	1,670
STRUCTURAL PANELS (Sq. Ft.)	2,209,272	2,161,191	2,161,191	1,023,869	408,000
% Change - August 1986	4.2%	2.0%	-0.8%	22.1%	13.3%
% Change - September 1985	11.7%	6.9%	-2.2%	49.8%	27.0%





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YEAR-TO-DATE INDICATORS

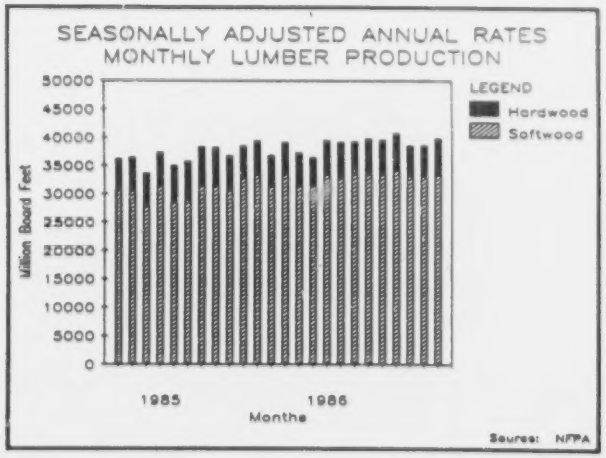
	PRODUCTION		SHIPMENTS		ORDERS RECEIVED	
	Latest Period Available	% Change	Latest Period Available	% Change	Latest Period Available	% Change
	9 mos.'86	9 mos.'85	9 mos.'86	9 mos.'85	9 mos.'86	9 mos.'85
	(Million Board Feet)					
TOTAL LUMBER	30,246	6.9%	30,140	7.5%	30,361	7.7%
TOTAL SOFTWOOD	25,726	8.9%	25,651	9.1%	25,779	9.1%
TOTAL HARDWOOD	4,520	-3.3%	4,489	-0.8%	4,582	0.8%
	(Million Square Feet)					
STRUCTURAL PANELS	19,446	12.3%	19,346	12.1%	19,255	10.7%

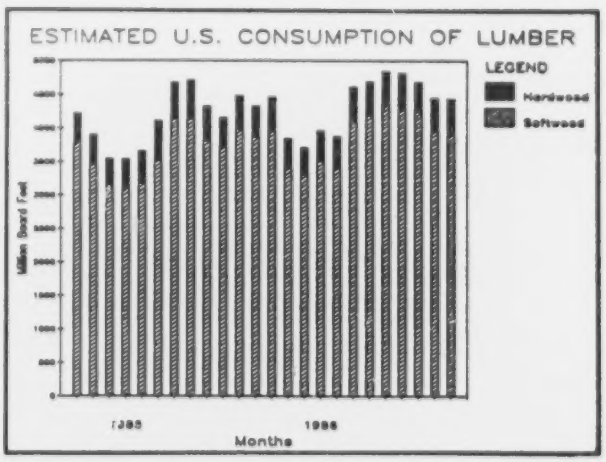
SEASONALLY ADJUSTED ANNUAL RATES

	PRODUCTION			SHIPMENTS		
		---% Change From--			---% Change From--	
LUMBER REGION	Sep. '86	Aug. '86	Sep. '85	Sep. '86	Aug. '86	Sep. '85
	(Million Board Feet)			(Million Board Feet)		
Southern Pine	8,322	-23.8%	-24.1%	8,258	-24.7%	-25.7%
Douglas Fir	9,998	16.1%	21.7%	9,539	21.6%	15.4%
Western Pine	11,709	14.8%	30.6%	11,485	14.3%	29.6%
Calif. Redwood	1,958	3.7%	10.5%	1,928	-2.1%	17.4%
Other Softwoods	1,625	1.6%	8.0%	1,592	2.6%	5.4%
TOTAL SOFTWOODS	33,612	1.2%	7.0%	32,802	1.3%	4.5%
TOTAL HARDWOODS	6,299	14.9%	16.0%	6,632	15.4%	23.1%
TOTAL LUMBER	39,911	3.1%	8.3%	39,434	3.4%	7.2%

DOMESTIC LUMBER CONSUMPTION

	CURRENT			YEAR-TO-DATE	
	Latest Month Available	----% Change From----		Latest Period Available	% Change From
	Sep. '86	Aug. '86	Sep. '85	9 mos.'86	9 mos.'85
	(Million Board Feet)				
Total Consumption	4,444	-0.1%	2.5%	40,423	6.3%
Softwood Consumption	3,917	-1.4%	1.0%	36,041	7.5%
Hardwood Consumption	526	10.3%	14.6%	4,382	-2.9%

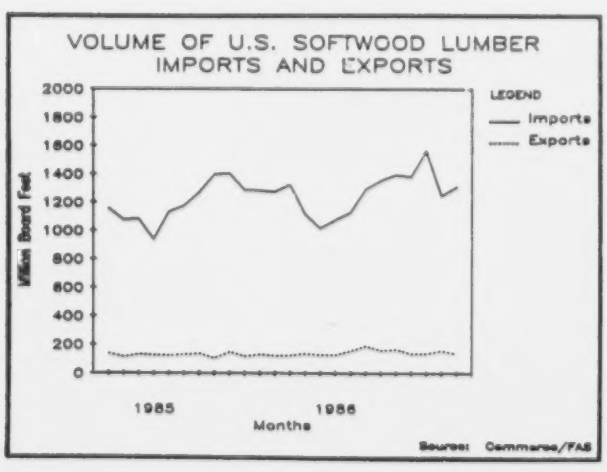


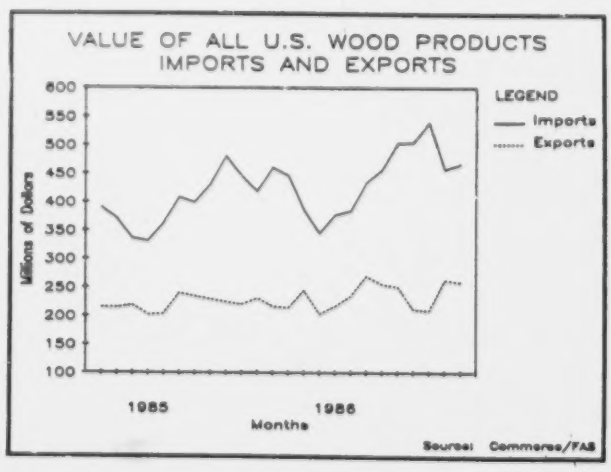


INTERNATIONAL TRADE STATISTICS

		VOLUME				VALUE			
		Sep. '86	9 mo. 1986	% Change From Aug. '86	% Change From 9 mo. 1985	Sep. '86	9 mo. 1986	% Change From Aug. '86	% Change From 9 mo 1985
EXPORTS									
SOFTWOOD LUMBER	MMBF	133.2	1,356.5	-14.8%	20.2%	46,452	454,907	-13.4%	22.7%
To Canada	MMBF	35.0	280.6	-5.4%	23.1%	8,844	69,392	-1.5%	21.0%
SOFTWOOD LOGS	MMBF	307.1	2,533.3	-6.4%	-10.4%	98,867	821,728	-9.7%	-7.4%
SOFTWOOD PLYWOOD	MMSF 3/8"	47.2	408.9	62.7%	85.2%	10,456	88,577	66.7%	69.8%
HARDWOOD LUMBER	MMBF	47.4	369.8	-3.4%	24.8%	27,675	249,504	-18.4%	35.5%
HARDWOOD LOGS	MMBF	3.6	78.4	-19.0%	-10.0%	2,750	71,475	-27.2%	3.8%
HARDWOOD VENEER	MMSFsurf	85.5	725.8	31.2%	26.9%	7,027	57,668	11.6%	25.9%
PARTICLEBOARD	MMSF 3/4"	12.7	118.3	4.0%	46.6%	2,684	23,841	-0.1%	46.9%
ALL OTHER		NA	NA	NA	NA	62,367	393,411	36.0%	8.4%
TOTAL U.S. EXPORTS		NA	NA	NA	NA	258,973	2,169,601	-1.5%	8.4%
IMPORTS									
SOFTWOOD LUMBER	MMBF	1,309.6	11,746.1	5.2%	5.3%	286,203	2,467,154	7.4%	11.5%
From Canada	MMBF	1,300.9	11,647.5	5.5%	5.0%	283,877	2,443,839	7.8%	11.1%
SOFTWOOD LOGS	MMBF	4.6	42.0	-61.6%	-24.2%	651	4,685	-39.9%	-66.1%
SOFTWOOD PLYWOOD	MMSF 3/8"	10.0	100.0	-6.7%	55.3%	2,487	26,069	-12.3%	65.3%
HARDWOOD LUMBER	MMBF	23.2	260.3	-7.9%	-9.4%	12,675	125,655	1.0%	-13.0%
HARDWOOD LOGS	MMBF	2.2	21.1	-58.1%	14.4%	573	3,445	27.9%	30.5%
HARDWOOD VENEER	MMSFsurf	136.3	1,204.4	16.9%	14.2%	8,806	84,030	10.4%	9.4%
HARDWOOD PLYWOOD	MMSFsurf	281.2	2,888.9	1.5%	8.9%	36,082	361,198	-5.9%	7.7%
HARDBOARD	MMSF 1/8"	56.3	674.9	-24.6%	18.4%	4,519	43,820	-6.2%	11.9%
PARTICLEBOARD	MSF 3/4"	172.6	886.1	137.9%	18.1%	8,556	105,028	-18.5%	2.4%
ALL OTHER		NA	NA	NA	NA	105,317	898,529	-5.4%	14.1%
TOTAL U.S. IMPORTS		NA	NA	NA	NA	466,075	4,122,281	2.1%	10.4%

Note: Volume total is not possible because the products are in different units of measure.
Note: Particleboard imports include OSB/Waferboard.





VALUE OF NEW CONSTRUCTION

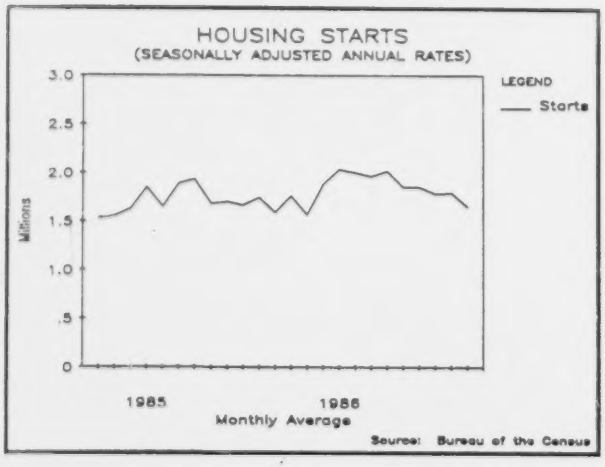
	CURRENT			YEAR-TO-DATE	
	Latest Month Available	---% Change From---		Latest Period Available	% Change From
	Sep. '86	Aug. '86	Sep. '85	9 mo. '86	9 mo. '85
	(Billions of Dollars)				
VALUE OF ALL NEW CONSTRUCTION PUT-IN-PLACE	36.8	2.2%	12.8%	278.0	9.7%
Private	28.6	0.7%	10.9%	224.8	8.6%
Residential	16.8	-1.2%	20.6%	127.1	15.2%
Nonresidential & Other	11.8	3.5%	-0.8%	97.7	1.1%
Public	8.1	8.0%	18.6%	53.0	14.3%

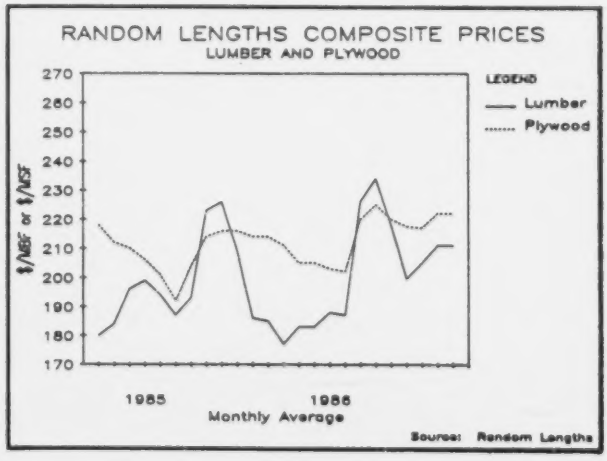
HOUSING STARTS

	Sep. '86	Aug. '86	Sep. '85	9 mo. '86	9 mo. '85
	(Thousands of Units)				
NEW HOUSING UNITS STARTED					
Total Private & Public	153.2	-6.5%	3.1%	1,421.6	7.1%
New Private Starts	152.9	-6.7%	3.5%	1,420.9	7.3%
Seas. Adj. Annual Rate	1652	-8.0%	2.2%		
One-Family Housing Starts	102.2	-6.6%	13.7%	928.6	12.1%
Proportion of Total	66.7%			65.3%	
	(Number of Units)				
SHIPMENTS OF MOBILE HOMES	21,500	-0.5%	-12.2%	188,300	-13.7%

INDUSTRY EMPLOYMENT

	Sep. '86	----% Change From--- Aug. '86	Sep. '85
	(Thousands of Employees)		
TOTAL EMPLOYMENT (Seasonally Adj.)			
All Industries	100,448	0.2%	2.4%
All Manufacturing Industries	19,099	-0.1%	-0.9%
Lumber and Wood Products	734	0.7%	4.6%
Furniture and Fixtures	500	0.2%	1.0%





India's Forest Resources are in Trouble

India's forest resources are being depleted rapidly. This is a cause of economic as well as environmental concern. According to dated official statistics, Indian forests cover 75 million hectares (185 million acres). Recent estimates, however, place the figure at closer to 44 million hectares (109 million acres), pointing to a tremendous loss in forestland.

The major cause of deforestation in India is cutting for fuelwood. Over 90 percent of the noncommercial energy consumed in India is from fuelwood, primarily used for cooking. The government has undertaken "social" forestry programs to produce fuelwood plantations and has begun restricting the commercial harvest on India's forests. As a consequence, many wood products mills are operating well below their capacity.

The Indian bureaucracy has evolved a bias against the use of wood in construction primarily because of the diminishing domestic supply. Governmental efforts have been directed toward discouraging use of wood. Architects are being conditioned to specify other materials. Hence, the mindset appears to be to use substitute construction materials as opposed to importing wood. Importing as a solution to India's wood needs has been overlooked.

India's Wood Industry

India's lumber industry is characterized by a very large, but inefficient sawmilling industry; a strong, fairly efficient plywood industry; and large numbers of small manufacturers of a variety of wood products. Approximately 4.7 billion board feet (11 million m^3) of lumber is produced annually. India has the seventh largest lumber-producing industry in the world, producing more than many industrialized countries. It ranks near Sweden in terms of its production.

India's domestic plywood industry is more organized. It has a capacity estimated to be 108 million m^2 among the 56 major mills. Nine particleboard plants, three hardboard plants and one MDF plant round out the panel industry in the country. Virtually all of India's production is used domestically. Exports have declined by half since 1980, a reflection of the diminishing resource. Of its remaining exports, decorative veneers are the most important. India's teak and rosewood are purchased mainly by Japan and Italy.

The Trade Opportunities

Opportunities for U.S. producers are beginning to surface. But penetration into the Indian market will require a well-organized and aggressive marketing strategy by individual companies as well as the industry as a whole. The major obstacles are:

- a shortage of foreign exchange and pressing needs for agricultural and industrial goods
- a bias against using wood, particularly in housing
- continuing high tariffs for certain products including plywood and particleboard
- poor infrastructure to market and distribute wood products
- high prices for U.S. products relative to other sources at the present
- political instability

The conclusions of the NFPA report stated clearly that much is

still unknown or uncertain about the Indian market. But the prospects are bright, and many of the identified barriers can be overcome. The complete report with details about NFPA's trade mission, and a thorough market analysis on India, is available from NFPA's Publications Office (Contact Renee Browne at 202/463-2733).

PROSPECTS LOOKING UP FOR U.S. EXPORTS

A surge of exports during October narrowed the U.S. trade deficit to $12.06 billion, the lowest level since August, 1985, showing the first real indication that the decline of the dollar is having an impact on trade flows. The 10.3 percent increase in U.S. exports reported for the month

Table II:
Softwood lumber and plywood exports are up dramatically.

Table III:
Most softwood species have enjoyed increased exports.

TOTAL EXPORTS OF SOFTWOOD LUMBER
By Species, MMBF

	9 mos. 1986	9 mos. 1985	% Change 86 v'85
Douglas Fir	372,331	361,179	3%
Hemlock	366,488	262,898	39%
Ponderosa Pine	140,018	95,588	46%
Southern Yellow Pine	132,585	120,924	10%
Other Pine	104,668	83,403	25%
Other Fir	71,889	60,650	19%
Spruce	66,795	52,422	27%
Other Softwood	31,026	21,562	44%
Eastern White & Red Pine	25,436	28,743	-12%
Western Red Cedar	15,727	12,007	31%
Other Cedar	11,328	7,635	48%
Redwood	7,858	10,675	-26%

Source: NFPA; Dept. of Commerce

TOP CUSTOMER COUNTRIES FOR U.S. SOFTWOOD LUMBER AND PLYWOOD
RANKED BY RATE OF INCREASE

SOFTWOOD PLYWOOD (MSF)

	9 mos. 1986	9 mos. 1985	% Change 86 v'85
Denmark	74,220	13,157	464%
Canada	41,612	17,719	135%
Netherlands	64,883	29,496	120%
West Germany	28,257	14,572	94%
Fr. Pacific Isl.	6,681	4,137	61%
United Kingdom	83,941	54,247	55%
Trinidad & Tobago	7,000	4,655	50%
Belgium	48,409	35,199	38%
Japan	6,649	4,912	35%
All Countries	408,853	219,613	86%

SOFTWOOD LUMBER (MBF)

	9 mos. 1986	9 mos. 1985	% Change 86 v'85
Spain	31,051	18,238	70%
United Kingdom	34,432	20,894	65%
West Germany	18,603	12,723	46%
Japan	554,587	415,810	33%
Canada	277,476	224,095	24%
Mexico	92,191	74,704	23%
Italy	68,144	56,265	21%
All Countries	1,347,557	1,119,727	20%

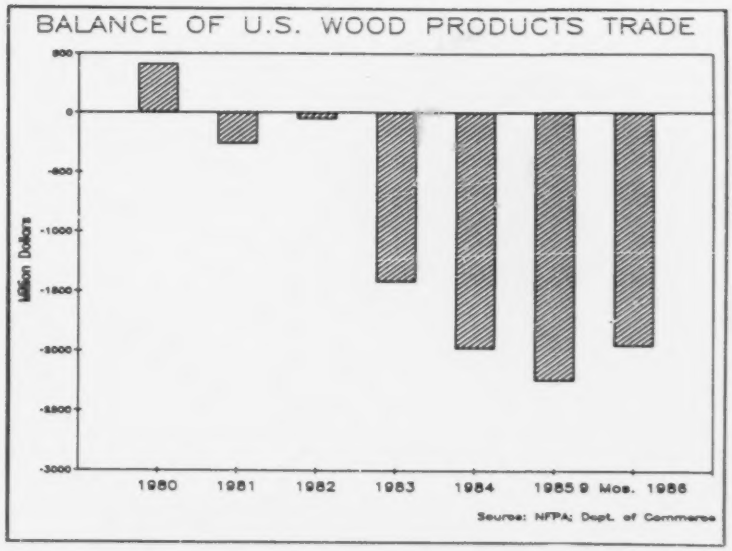
Source: NFPA; Dept. of Commerce

outpaced a 4.4 percent rise in imports, resulting in the declining deficit. The fact that the rise in exports was not at the expense of imports is a healthy sign for the manufacturing sector as well as the consuming segments of the economy. The only sobering aspect of the news was that the trade gap with Japan increased, apparently because of increased imports of Japanese autos.

For Wood Products...

The narrowing deficit has yet to work its way into wood products trade, where rising imports have more than offset increases in exports (Figure 2). The pattern through September shows the total dollar value of wood products exports are up a little over 8 percent this year, with imports up 10 percent. The good news is that exports of the major manufactured products are up dramatically, while exports of raw material -- logs and chips -- have declined. The plunge in exports of softwood logs and wood chips has disguised the surge in exports of finished products. Softwood logs and wood chips accounted for 50.2 percent of U.S. wood products exports in 1985. (Figure 3.) So far this year, the value of log (Figure 4) and chip exports has declined by 17.4 percent to $940 million. However, if you remove softwood logs and wood chips from the total and the value of wood product exports are up 27.4 percent over last year. Volumes are up as dramatically.

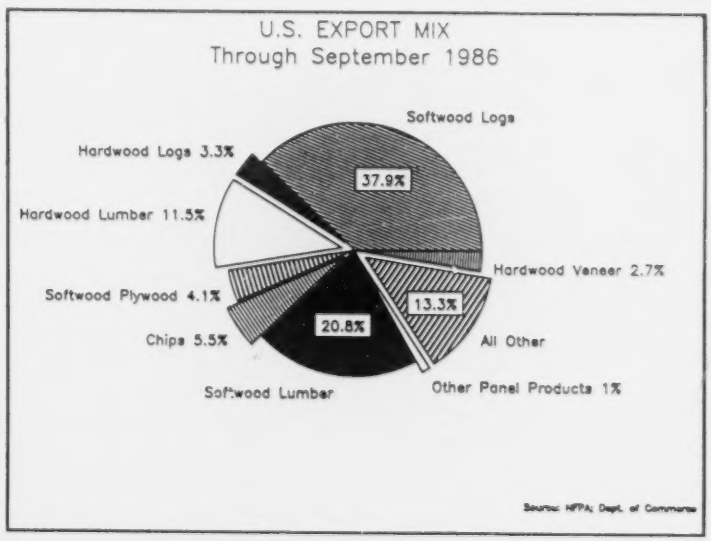
Exports of softwood lumber and plywood to Europe have been strong performers, increasing volume by 44 percent (Figure 5) and 108 percent respectively during the first nine months of the year. Sales to Europe have led the increase. Tables I and II detail the softwood lumber export picture by customer country and species.



The trade balance in wood products has vacillated from a record surplus of $414 million in 1980 to a record deficit of $2.2 billion in 1985. Nearly a year and a half since the dollar began its decline, expectations for rising exports are beginning to be realized. Industry promotion programs have been set in place overseas, and many companies are reporting increased activity among prospective

Figure 2: Imports have outpaced exports every year since 1980.

Figure 3: Softwood logs and wood chips account for over half of exports so far this year.



buyers. Much of the increased activity is from existing overseas markets, where exchange rate changes are having a favorable impact. But in order for wood products exports to really take off, and for the wood products trade deficit to return to a plus situation, new opportunities must be identified and captured. Some of the best prospects for overseas sales of wood products exist in countries which now import very little from the United States, and where organized industry trade programs can have a big payoff.

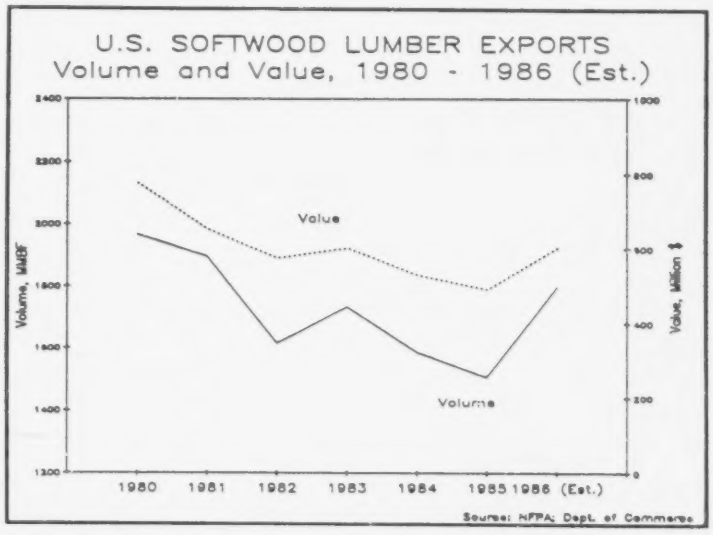


Figure 4: Softwood lumber exports are beginning to reverse a downward trend.

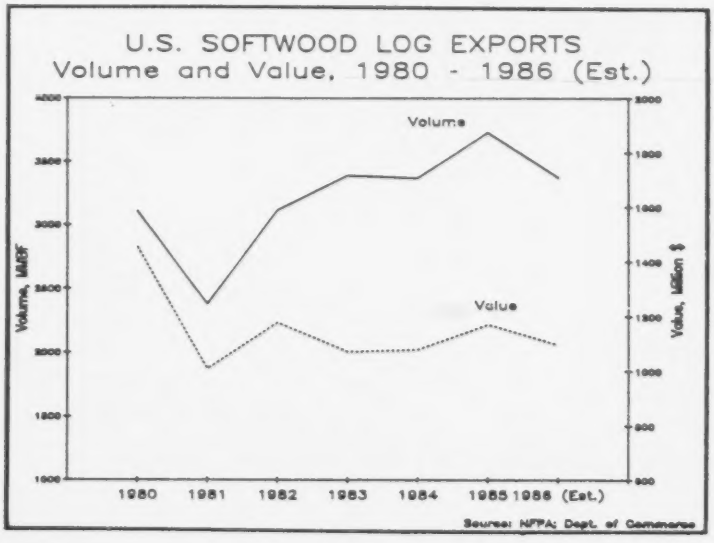


Figure 5: Log exports are beginning to show a downward trend.